

Purchase Card Module Three

Management Internal Controls and Program Oversight

Head of Activity (HA) Certification Course



**DON Consolidated Card Program Management Division
(DON CCPMD)
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This is Module 3 of the Purchase Card Head of Activity Course.

The lesson discusses Management Internal Controls and Program Oversight.

This is one of the more important lessons in this course because as a Head of Activity, you are accountable for the performance and management of your command or Activity Purchase Card program.



Module Three Topics



- Management Internal Controls
- DON Program Oversight and Reporting
- Commanding Officer Management Report Endorsement

Of the three areas we will discuss in the module, the first one will cover Management Internal Controls and their intended purpose in reducing program risks.

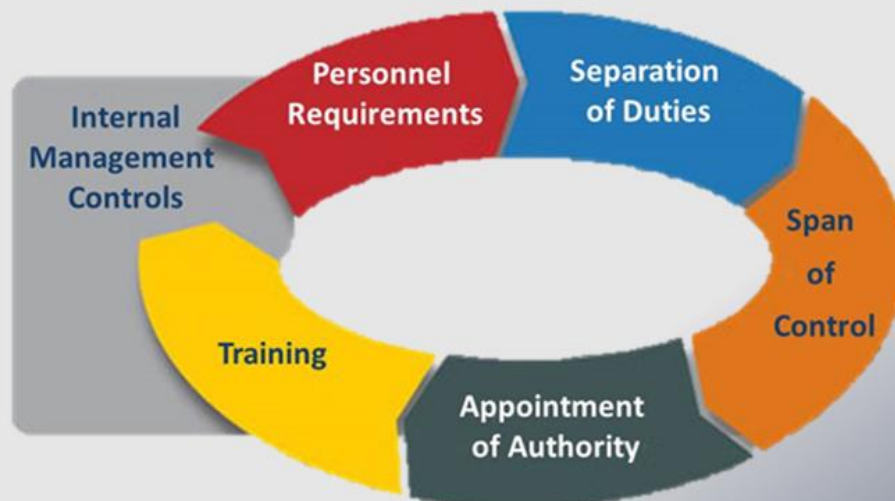
With this knowledge of Internal Controls, we will then discuss how they are used for program oversight and to ensure compliance with delegated authority.

Lastly, we will discuss the process that leads to the Commanding Officer Report and your concurrence of disciplinary or administrative actions taken.

Management Internal Controls



Five Specific Management Internal Controls



It is important to note at the onset of the GCPC program there were government wide issues related to the rapid issue of Purchase Cards, including insufficient training and poor internal accountability combined with the ease of use.

This resulted in instances of abuse, misuse and fraud.

Early in the program the Government Accountability Office,, recommended the establishment of strong internal controls. These are reflected in NAVSUPINST 4200.99.

Even with these internal controls in place, the GCPC Program remains highly-visible, requiring diligent senior management oversight to ensure compliance with Management Internal Controls and policies.

One thing to keep in mind is that these Management Internal Controls can only provide reasonable assurance, not absolute assurance and the controls are only as effective as the people involved.

As the Head of Activity, you have the authority to require additional controls in your GCPC Internal Operating procedures that are unique to your Activity and mission.



Personnel Requirements



- **Personnel who may be issued a GCPC or be appointed as an AO/CO or an A/OPC**
 - ❑ Civilian Government employees
 - ❑ Armed Forces members
 - ❑ Foreign National **Direct** Hire employees, if they can be held pecuniarily liable



Personnel Requirements have been established to ensure Pecuniary Liability can be imposed on program personnel as a Management Control.

Legal status is everything when enforcing accountability – make sure you appoint personnel in the right legal status in order to maintain the ability to enforce pecuniary liability.

Only civilian government employees, members of the Armed Forces and foreign national direct hire employees, so long as they can be held liable, may be issued a GCPC or be appointed as an AO/CO or A/OPC.



Personnel Requirements



- Foreign National **Indirect** Hire employees
 - ❑ **NOT** authorized to perform AO/CO duties
 - ❑ May perform A/OPC and Cardholder duties, but **CANNOT** be held pecuniarily liable
- Contractors **CANNOT** perform AO/CO or Cardholder duties
 - ❑ Assist with A/OPC administrative responsibilities defined in Statement of Work
 - ❑ Approved by HA



Foreign National Indirect Hire employees are not authorized to perform AO/CO duties. They may perform A/OPC and Cardholder duties but may not be held pecuniarily liable.

Contractor support services are not authorized to perform Cardholder, AO or CO duties, but they may assist in performing A/OPC administrative responsibilities.

The primary A/OPC must provide direct oversight over the contractor who must sign a non-disclosure statement and the contractor's Statement of Work must be explicit regarding the functions to be performed.

Contractor's access to the bank's web based system should be restricted to "read only access" for data collection/analysis needed to assist in managing the program.

Each request for contractor support must be approved by the Head of Activity.



Training



- Initial Training
- Refresher Training (within two yrs. of Initial Training)
- Annual Training
- DON HA Training (One time and done)



Training - All A/OPCs, AO/COs, Cardholders and Convenience Check writers must complete initial training before assuming program responsibilities.

There are four required courses and AO/COs, Cardholders and Convenience Check writers have one additional course.

All A/OPCs, AO/COs, Cardholders and Convenience Check writers must complete both Activity IOP and refresher training, of which there are three course options they can select.

Refresher Training must be completed within 2 years of the date of their Initial Training completion date.

Annual training consists of Ethics training for all HAs, A/OPCs, AO/COs, Cardholders and Convenience Check writers as well as Certifying Officer Legislation Training for all Certifying Officers and Department Accountable Officials. Annual Training must also be completed before assuming program responsibilities.

As the Head of Activity, you are required to complete this DON HA training course, one time, and prior to signing the Semiannual Report.

Separation of Duties

- Head of Activity and A/OPCs ensure roles and responsibilities are enforced
- AO/COs cannot be a Cardholder or A/OPC within the same hierarchy
- A/OPCs cannot be Cardholders within the same hierarchy



To avoid conflicts of interest there must be a distinct separation of duties for GCPC program personnel.

The Head of Activity and the A/OPCs need to ensure that the roles and responsibilities of individuals within the program are not in conflict and that adequate check and balances are in place. This is called Separation of Duties.

For example, Approving Officials and Certifying Officers may not be Cardholders or be an Agency Organization Program Coordinator with in the same hierarchy.

A/OPCs cannot be a Cardholder within the same hierarchy.

Resource or Financial Managers may not be Cardholders or AO/COs that expend their own funds or certify payment with same funds.

Separation of Duties also applies to the AO/CO and Cardholder positions.



Separation of Duties



- Personal Property Managers and responsible officers/custodians, or equivalents cannot be Cardholders with authority to purchase accountable items
- Resource or Financial Managers (R/FMs), budget managers or equivalents cannot be Cardholders or AO/COs with responsibility for executing their own funds to the maximum extent possible



Personal Property Managers and responsible officers/custodians, or equivalents cannot be Cardholders with authority to purchase accountable items.

Resource or Financial Managers may not be Cardholders or Approving Officials or Certifying Officers who expend their own funds or certify payment with same funds.

Separation of Duties also applies all positions.



Span of Control



- A single AO/CO account will contain a maximum of seven Cardholder and/or convenience check accounts
- An HL5 A/OPC will not oversee more than 300 AO/CO, Cardholder, and/or convenience check accounts
- Any individual providing oversight to A/OPCs, AO/COs, or their alternates must comply with Span of Control ratios across multiple hierarchies



Span of Control helps to ensure GCPC program participants have sufficient time to complete required reviews and oversight.

These are maximum ratios of individuals providing oversight. Additional consideration should be given to the number of transactions per Cardholder of Convenience Check accounts that an AO/CO is required to review.

A benchmark is no more than 150 transactions monthly per AO/CO from all the accounts they provide oversight. The A/OPC should evaluate the timeliness and effectiveness of the AO/COs invoice review and certification process to ensure the number of transactions for all card accounts allows the AO/CO to complete a thorough review and certification.

The ratio of Purchase Card and convenience check accounts to AO/COs may not exceed 7:1.

The ratio of Purchase Card and convenience check accounts to A/OPCs may not exceed 300:1.



Appointment of Authority



- HL5 A/OPCs on Letter of Delegation from HA
- HL3 & HL4 A/OPCs on Letter of Appointment from HA
- AO/CO on Letter of Appointment
- Cardholder authority to use the GCPC up to micro purchase threshold on Letter of Delegation
- Cardholder Authority to use the GCPC above the micro purchase threshold on SF-1402



After initial training, authority to perform the A/OPC, AO/CO or Cardholder duties must be documented in writing before performing their roles and responsibilities.

As the Head of Activity, you may delegate to your HL5 A/OPC the authority to appoint Cardholders and AO and COs.

When HL5 A/OPCs are delegated authority to appoint, they are issued a Letter of Delegation.

By the same reasoning, when a Cardholder is delegated Purchase Card authority, they are issued a Letter of Delegation.

AO and COs are appointed because they have no delegated authority or Purchase Card use authority.

GCPC delegation and appointment letters are valid for the duration the employee serves in their capacity. Letters should be updated when the content or contracting authority has changed, but not simply due to the departure of the individual with signature authority.



Appointment of Authority



- AO/COs authority to certify GCPC invoices in DD Form 577
- Cardholders are also Department Accountable Officials and have this additional appointment in the DD Form 577



The DD Form 577 serves both as the appointment mechanism for appointment of Certifying Officer and Department Accountable Officials as well as an acknowledgement of responsibilities and pecuniary liability.

Remember, an AO/CO is a dual role position in that they are also Certifying Officials.

Cardholders other than indirect hire employees and AOs waived from the dual appointment including Certifying Officers are Department Accountable Officials.



Module Three Topics



- Management Internal Controls
- **DON Program Oversight and Reporting**
- Commanding Officer Management Report Endorsement

We have just covered five specific Management Internal Controls.

Next, we are going to cover the DON requirements for Program Oversight and reporting.



Monthly Review



- Perform with the Program Audit Tool (PAT)
- Review transactions, manage internal controls, and program effectiveness
- Report to, and combined with, higher level hierarchy reports for Monthly Review and Semiannual Report
- Identify internal weaknesses not mitigated by management internal controls

Program oversight is a daily and continuous process. Your AO/CO is your first line of defense to minimize abuse and fraudulent use of the Government Purchase Card.

The Agency Organization Program Coordinator has an integral part in the oversight and reporting process for the Monthly Review.

The Monthly Review is the first formal and a key reporting mechanism that provides information to your higher hierarchies. It provides a review of transactions and ensures effective application of purchase internal controls, a review of training, span of control, account controls, and delinquencies.

Monthly Reviews are performed using the Program Audit Tool also known as PAT.

Reviews at each hierarchy level are automatically submitted to the next higher level A/OPC.

HL5 A/OPCs must complete their monthly review within 30 calendar days of the end of the billing cycle.

HL4 and HL3 A/OPCs each have 10 calendar days to complete their monthly review.



Semiannual Report (SAR)



- Due to CCPMD on June 15th and December 15th of each year
- June report period - 20 September through 19 March
- December report period - 20 March through 19 September

The DON Consolidated Card Program Management Division requires the Head of Activity to submit Semiannual Reports on the status of their Purchase Card Programs.

These reports are due to CCPMD on the 15th of June and the 15th of December of each year.

June's report encompasses the period of 20 September through 19 March and December's report covers 20 March through 19 September.

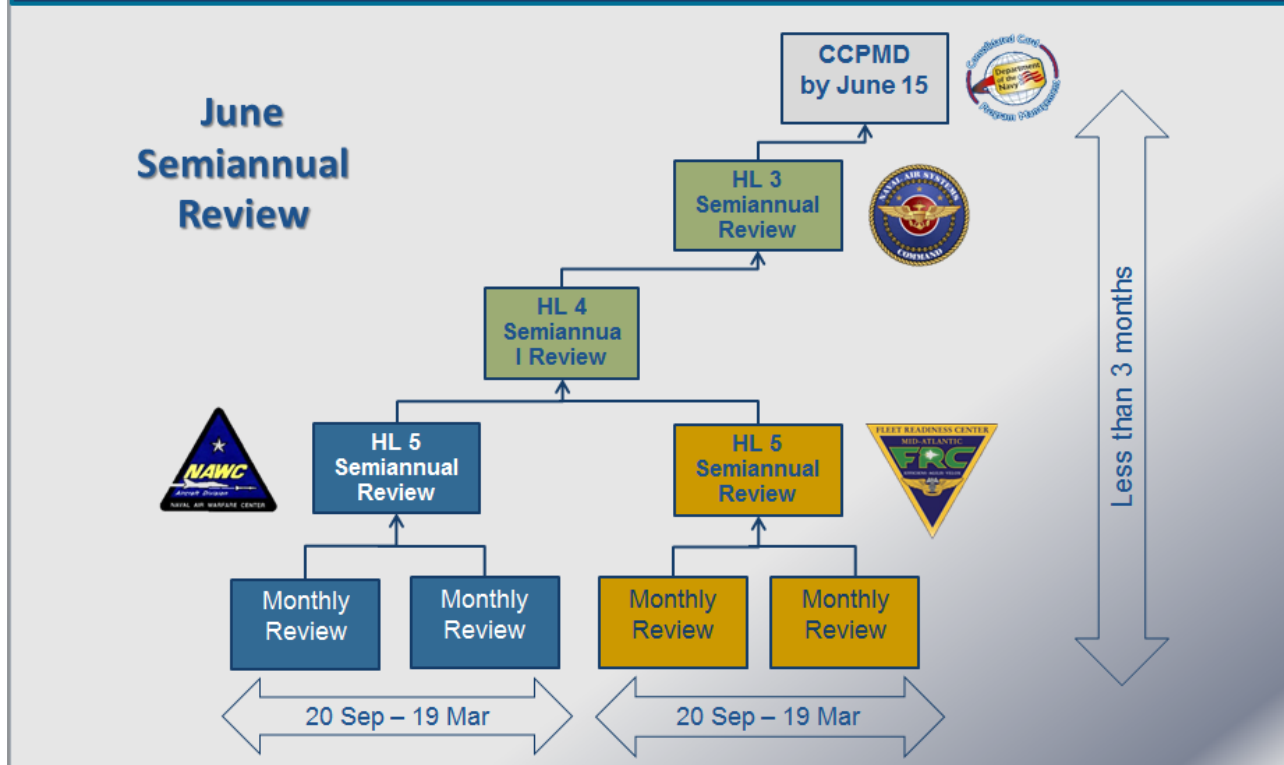
The reason that the dates begin on the 20th and end on the 19th is because the bank billing cycle begins and ends on these dates.

The bank billing cycle does not start and end on the first and last day of the month.

Let's review the consolidation and reporting of the Semiannual Report.



Semiannual Report (SAR)



The DON GCPC Semiannual Report is required to ensure adherence to internal controls and ensure the Head of Activity is involved in each Activity's GCPC program.

The HL5 A/OPC creates the Semiannual Report using the Program Audit Tool. It is a comprehensive report of the Activity's monthly reviews for the past six months. Results are briefed to the Head of Activity and then reported to the A/OPC at the hierarchy level directly above their hierarchy.

HL4 A/OPCs, if assigned, will summarize the reports provided by the Activity A/OPCs below them, and review the results with their Head of Activity before submitting a consolidated report to their HL3 A/OPC.

The HL3 A/OPC will consolidate all command Semiannual Report results; review results with their Head of Activity and submit a consolidated HL3 Semiannual Report to CCPMD by 15 June and 15 December of each year.

The HL3 Head of Activity is encouraged to use the Semiannual Report information as input to the command's Management Internal Control Program if the GCPC is included as an Assessable Unit.



Module Three Topics



- Management Internal Controls
- DON Program Oversight and Reporting
- **Commanding Officer Management Report Endorsement**


Now that we have discussed both the Monthly Review and the Semiannual Review, it is important to have an understanding of what lies behind the numbers, how they are compiled and what you are expected to endorse through the Commanding Officer Management Report.



CO Management Report Endorsement



Commercial Card Program Audit	
Commanding Officer Management Report	
Date Range: from 09/20/2013 to 03/19/2014	Run Date: 06/02/2014 15:53:27
Hierarchy Level:	Run By:
DON CCPMD Claimancy Review	



HA/CO Endorsement:
In accordance with NAVSUP INST 4200.99(series), the internal review from 09/20/2013 to 03/19/2014 was completed on _____ by _____
I have reviewed the Program Audit Tool submittal and concur with the findings and any disciplinary/administrative actions taken.
Signature of COMA: _____
Printed Name: _____
Date: _____
PAT (1.0.5260.17683) Page: 2

The most important component of the Semiannual Review is the Head of Activity endorsement of the Commanding Officer Management Report.



CO Management Report Endorsement



- Endorsement indicates concurrence with the findings, discrepancies and all administrative actions
- Findings and administrative actions are subject to review
- Auxiliary Worksheet – Opportunity to report:
 - ❑ Additional weakness in internal controls
 - ❑ Findings from audits, inspections, and self assessments

Your endorsement indicates concurrence with the findings, discrepancies, and all administrative actions taken in your Purchase Card program.

These findings and administrative actions are subject to review at the next level hierarchy.

It is important to note that the Semiannual Review includes a second component called the Auxiliary Worksheet, which provides your Activity the opportunity to report additional weaknesses in internal controls and findings from other external audits, inspections, and self-assessments.

It is also just as important to understand the process of the Monthly Review and how this feeds into the Commanding Officer Management Report which you are required to endorse.



CO Management Report Endorsement



Program Audit Tool

- Provide a method for review and corrective action on infractions of procedure and policy
- Utilize filters to identify potential violations in transactions
- Policy-based filters are related to the structure and/or operation of the card program
- Transaction-based filters are individual occurrences of potential deviations from rules and regulations

The Monthly Review process consists of a second review, assessment, and documentation of transactions which have been identified by the Program Audit Tool. The Program Audit Tool was developed for the Department of the Navy.

Its purpose is to provide a method for review and corrective action on certain infractions of procedure and policy in the administration of the DON's Purchase Card Program.

The Program Audit Tool utilizes filters to identify two types of potential violations in all transactions. The filters are Policy-based and Transaction-based.

Policy-based filters are related to the structure and/or operation of the card program itself, such as a single AO/CO with too many individual accounts to supervise.

The CO Management Report will also depict these areas for your review.

Transaction-based filters are individual occurrences that screen for potential deviations from rules and regulations from proper use of the Purchase Card.

The initial display of these transactions is in the Transaction Summary Screen for AO/CO reviewers and subsequently at every level of review within the hierarchy.



CO Management Report Endorsement



- **Infraction** – What rule was broken?
- **Assessment** – Was it intentional, unintentional or do we suspect internal fraud?
- **Action Taken/Planned** – What is the corrective action?

Once the Program Audit Tool transaction-based filters identify transactions that require additional review, both the supervising AO/CO and the A/OPC use a series of questions used to classify and document the transaction.

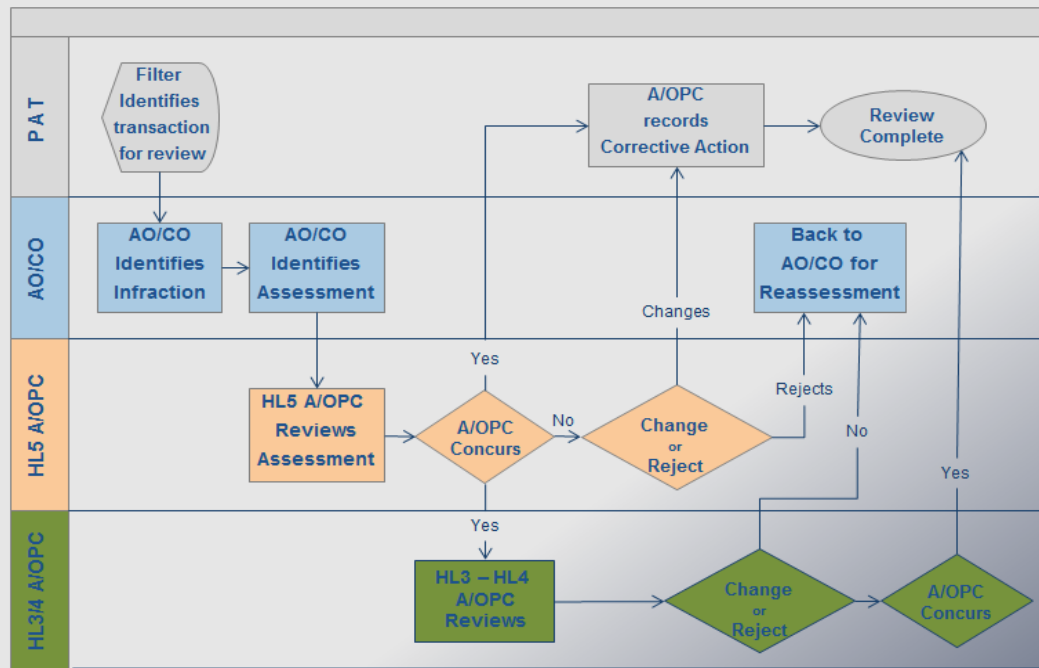
After the AO/CO reviews the supporting financial documents and answers a series of questions using the Program Audit Tool, they will determine if the transaction is a proper purchase or if there is an infraction.

If the AO/CO determines a transaction has an infraction then their next step is to make an assessment. The assessment will decide if the infraction was intentional, unintentional, or if there is potential fraud on behalf of the Government.

Next in the process is a secondary review by the A/OPC in which they will document the administrative or disciplinary action to be taken to correct future infractions.

The A/OPC also has the option to make certain changes to the AO/CO determinations or to reject the determination entirely.

CO Management Report Endorsement



This diagram is a simple description of the process and data flow in the Program Audit Tool. The Program Audit Tool selects transactions for review based on the previously described Transaction-based filters. These selected transactions are identified for the AO/CO to closely review and make a determination if the transaction is valid, or if the transaction is an infraction of proper purchase rules. Next, the AO/CO will make an assessment of the infraction and determine if it was intentional, unintentional or if there is suspected internal fraud. The transaction, and the documented determinations made by the AO/CO are then reviewed by the HL5 A/OPC, who is required to concur, change, or reject the AO/COs assessment. If the A/OPC concurs, then the next step is to record the corrective action taken from a selection of options. You will see these corrective actions taken or planned in your CO Management Report. You will also see the number of transactions which were determined as valid and the assessment and infraction of improper transactions. If however, the A/OPC does not concur with the AO/CO, they can opt to reject the review which will prompt the AO/CO to make a reassessment. Another option for the A/OPC when there is no concurrence is to change the assessment although they can change or downgrade the assessment, the A/OPC does not have the option to clear a transaction by changing it to a valid transaction. Because your Semiannual Review is forwarded to the next higher hierarchy level for review and consolidation, the next higher level A/OPC also has the same option to reject, change, Or concur the assessment of a transaction and the review is completed.



Module Three Topics



- Management Internal Controls
- DON Program Oversight and Reporting
- Commanding Officer Management Report Endorsement

In review of this module we described five specific internal management controls, the continuous process of program oversight and reporting and lastly, your endorsement of the CO management report and how the oversight and reporting process feeds into your Activity report.

Purchase Card Module Three

Head of Activity Certification Course

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This concludes Module Three of the Purchase Card Head of Activity Certification course.

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